Written Testimony to U.S. Senate Special Committee on Aging

Financial Security in Retirement: Innovations and Best Practices to Promote Savings

Wednesday, February 6, at 9:30 a.m.

Dirksen Senate Office Building, Room 562

Chair Collins, Ranking Member Casey, and Members of the Senate Special Committee on Aging, thank you for inviting me to discuss our Company's approach to promoting retirement savings.

Name: Denis St. Peter, PE (Maine)

Position: President and CEO

Personal/Professional Background:

- Wife and two sons (ages 19 and 21)
- Bachelor of Science, Civil Engineering, University of Maine, College of Engineering, 1990
- 1991 - 2000, Environmental Engineer with U.S. Air Force, Civilian Service
- 2000 - 2010, Project Engineer/Manager, CES, Inc.
- 2010 - 2019, President & CEO, CES, Inc.

Company: CES, Inc. – Engineers, Environmental Scientists, and Surveyors

Description of Company: CES is a consulting firm founded in 1978 by two professional engineers in the Greater Bangor Region of Maine. CES provides engineering, environmental, and surveying consulting services. CES has steadily grown our staff to approximately 100 highly qualified personnel, including registered professional engineers, environmental professionals and scientists, licensed land surveyors, licensed site evaluators, certified environmental inspectors, wetland and soil scientists, CADD designers and operators, technicians, as well as support personnel. Company headquarters is in Brewer, Maine, with offices throughout the State of Maine from Presque Isle (Northern) to Saco and Lewiston (Southern) to Machias (Down-East) to Waterville (Central), and one newly acquired office in Fort Myers, Florida. We proudly recently celebrated the 40th anniversary of our Company last year.

Our Mission Statement
To provide sensible solutions and exceptional service that achieve the goals of our clients, our employees, and the communities we serve.

Our Vision
To be recognized in Maine as the leading consulting firm providing engineering, surveying, sciences, planning, and other related services.

As the leader, we will:

- improve our ability to provide our clients with tailored solutions built upon quality service, responsiveness, and expertise;
- be recognized as one of the most desirable places to work in the State of Maine;
- grow our expertise and geographic service area; and
- serve as the model to which our competitors will aspire to become.

Our Values
As a Company, we:

- are committed to our clients, employees, and colleagues;
- value integrity, honesty, collaboration, openness, personal responsibility, continual self-improvement, and mutual respect;
- have a passion for problem-solving and remain flexible to take on any challenge;
- strive to continuously meet or exceed the expectations of our clients;
- hold ourselves accountable to our clients, employees, colleagues, and shareholders by honoring our commitments, providing responsive service, and achieving quality results;
- recognize that effective communication is the foundation to strengthen relationships with our clients, employees, and colleagues;
- contribute positively to our communities and our environment; and
- recognize that sound financial performance is essential to sustainable growth and our future success.

As you can see, we focus on and care about our clients, our employees, and the communities in which we live and work. We have received several awards in the past five years that affirm our commitment to and implementation of our mission, vision, and values. These have included: Best Places to Work in Maine Awards; ACEC of Maine Engineering Excellence Award; Governor's Environmental Excellence Award; AGC Build Maine Awards; United Way of Eastern Maine Gold Awards; and 2019 Bangor Region Chamber of Commerce Business of the Year Award.

Our History of Innovating and Implementing Best Practices to Promote Retirement Savings

Over 10 years ago, we started an ownership and leadership transition for our company. The two founding partners were approaching retirement and I was a candidate to become a shareholder and the incoming president. I recall a conversation with the decision-makers at the time about their approach to retirement planning for employees. At the time, we had a 401(k) Plan with periodic profit sharing for employees and no matching. One of the decision-makers explained that their approach was to provide what would be considered a match as compensation to the employee, and the employee would decide how much of that compensation that they would defer into the 401(k) plan.

I respected and understood the logic of this approach; however, there were four reasons that contributed to our decision to pursue a change to this approach. These were:

- I knew from discussions with some employees at that time that the lack of a matching program was perceived by some employees to be a missing component of our benefits package. An attractive employee benefits program is a critical to our mission, vision, and values.
- I understood that CES employees, in general, appeared to be underfunding their retirement savings. In 2010, we had a 62.3% participation rate and average employee contribution at 3.9% of base salary. These results were better than I had anticipated and likely was due to the excellent work of our experienced Human Resource (HR) Director who worked hard at educating our employees about the importance of saving for retirement and the tax advantages of deferring income.
- My first professional job after obtaining my engineering degree was as a federal government employee. I remember that I was motivated to contribute the necessary amount to the Thrift Savings Plan to secure the 5% match. I did not want to lose that money. As a newly graduated college student without much money and some college debt, I may not have started my retirement savings as early as I did without this extra match incentive. As we all know, starting early is so important to retirement saving due to compounding interest.
- Lastly, our annual 401(k) top heavy testing was in jeopardy of not passing, which was another indication that our retirement savings planning approach was not working well enough for our employees and could limit some of our key employees from contributing as much as they would want in the future.

Our team assembled, budgeted, and implemented an approach to improve our employee retirement savings. Our team included our HR Director, our Chief Financial Officer (CFO), other key employees, me, our 401(k) financial advisor, and our 401(k) third party administrator (TPA). This planning process occurred during the 2009 - 2010 timeframe during the recovery from the last recession. Early in the process we were uneasy about committing to matching due to the uncertainty of the economy. We benchmarked against other retirement saving approaches in our industry to help us establish our goals. This research led us to the conclusion that firms our size within our industry generally match up to 4% of salaries. Also, the Safe Harbor 401(k) provision is a 4% match (100% of the first 3% and 50% of the next 2%), which results in a total retirement savings rate of 9% of eligible compensation for those employees who commit to the deferral rate needed to receive the full match.

Our plan included a step-up increase in the matching contribution of 1% of the employees' eligible compensation (base salaries plus performance bonuses) per year for four years (2011 to 2014). We communicated to our employees that this 1% match was in addition to their current compensation. Due to our uneasiness about the economy and the increased operating cost of the new matching contributions (projected to be at least $30,000 per year for each 1% match and $120,000 per year for the 4% match), we told them that we were optimistic about the four-year plan but that we would be making an annual decision about each year's increase based on the economy, the Company's performance, and our annual budgeting process. We also implemented a communication plan with employees that involved private discussions with employees and our HR Director, other key managers of our staff, and our 401(k) financial advisor, to help them understand the importance of retirement saving and the advantage of tax-deferred savings; the benefit of the additional matching funds that they would receive if they elected to make deferral contributions to their 401(k) accounts; and education on different investment strategies available to them through the 401(k) Plan..

We have implemented several other best practices during the past ten years to help promote retirement savings. These include:

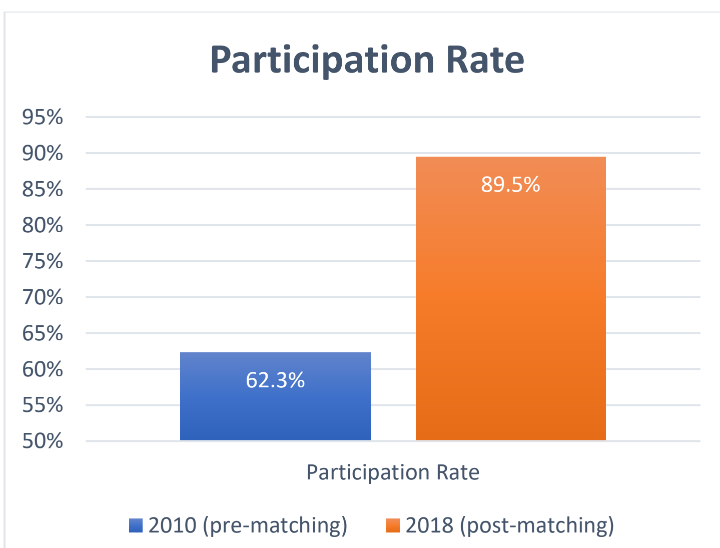
- **Matching Plan** - We implemented our matching plan as described above.
- **Investment Committee** - An investment committee of CES employees meets semiannually to review the performance of the investment funds offered though the 401(k) Plan and our investment advisor. The committee is authorized to take actions (e.g., placing a fund on a watch list due to lack of performance with its peer group) in the best interest of the 401(k) participants. Other best practices we have implemented for our investment committee include:
    - Each committee member is required to read *Best Practices of Investment Committees* by Rocco DiBruno.
    - We prepared Investment Committee By-laws.
    - We prepared an Investment Policy Statement that includes: Purpose of Plan, Investment Objectives, Selection of Investment Classes and Options, Default Investment Option, Monitoring Investments, Watchlist.
    - The investment committee is made-up of employees spanning several age groups.
    - Fiduciary Acknowledgement letters are signed by all investment committee members.
    - Meetings are documented with meeting minutes.
    - An Investment Advisor attends the committee meetings.
- **Third-Party Administrator** – We use a Third-Party Administrator for compliance testing and administrative advice.
- **Benefits Committee** – We have a benefits committee in order to advise us on plan structure.
- **Education and Communication** – We work very hard at education and communication with all employees. The following are some of the methods that we use:
    - Our Investment Advisor comes to CES offices for one-on-one meetings with employees (e.g., risk and fund allocation, retirement age, advantages of matching plan and tax deferral).

- During onboarding, our HR Director spends time with employees educating them on how our 401(k) plan works and the benefits of the plan (i.e., better prepared for retirement, tax deferral advantages, and match is "free money"!)
- HR Director periodically follows up with those employees who are not taking advantage (or not fully taking advantage) of the matching contributions to encourage them to maximize the "free money" available to them.
- We discussed the 401(k) Plan at annual and quarterly company meetings.

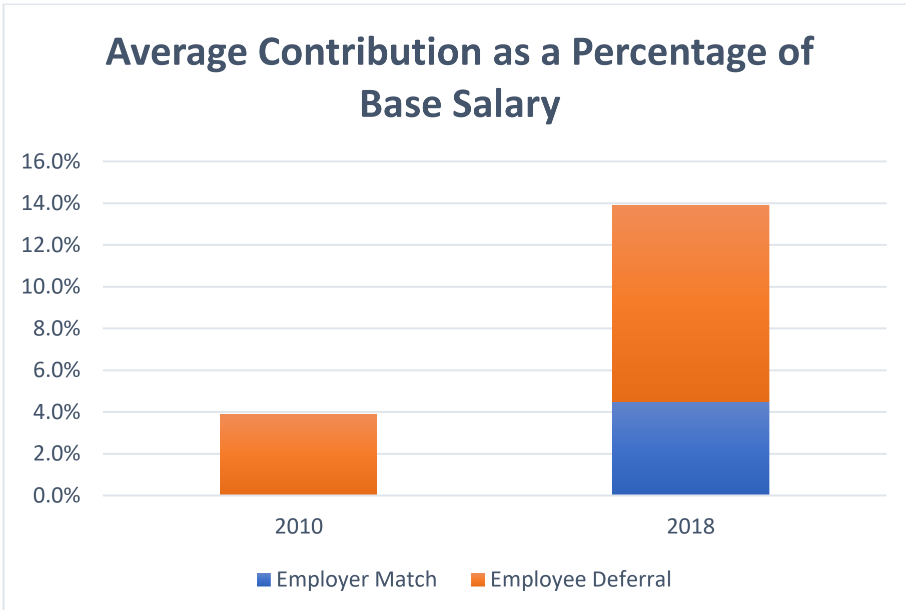
The results of our attempts to innovate and implement best practices to promote employee retirement savings are summarized in the table below. The table includes some key performance indicators from the year before we started our matching plan (2010) and the last full year (2018). The key performance indicators are participation rate, employee deferral, employee match, contribution as percentage of base salary, and 401(k) plan asset value.

Year	Eligible Employees	Participation Rate	Annual Contribution to Plan			401(k) Plan Asset Value
			Employee Deferral	Employer Match	Average Contribution as % of Base Salary	
2010 (pre-matching)	61	62.3%	$118,835	$0	3.9%	$2,454,000
2018 (post-matching)	95	89.5%	$464,337	$223,412	13.9%	$7,270,000

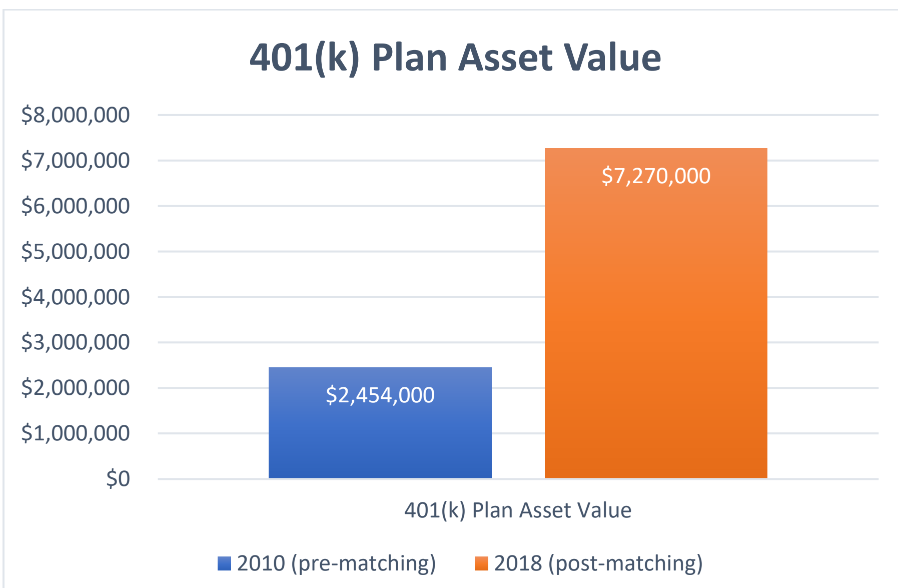
Participation Rate – Our participation rate **increased 27.2%** from 62.3% participation in 2010 to 89.5% participation in 2018.



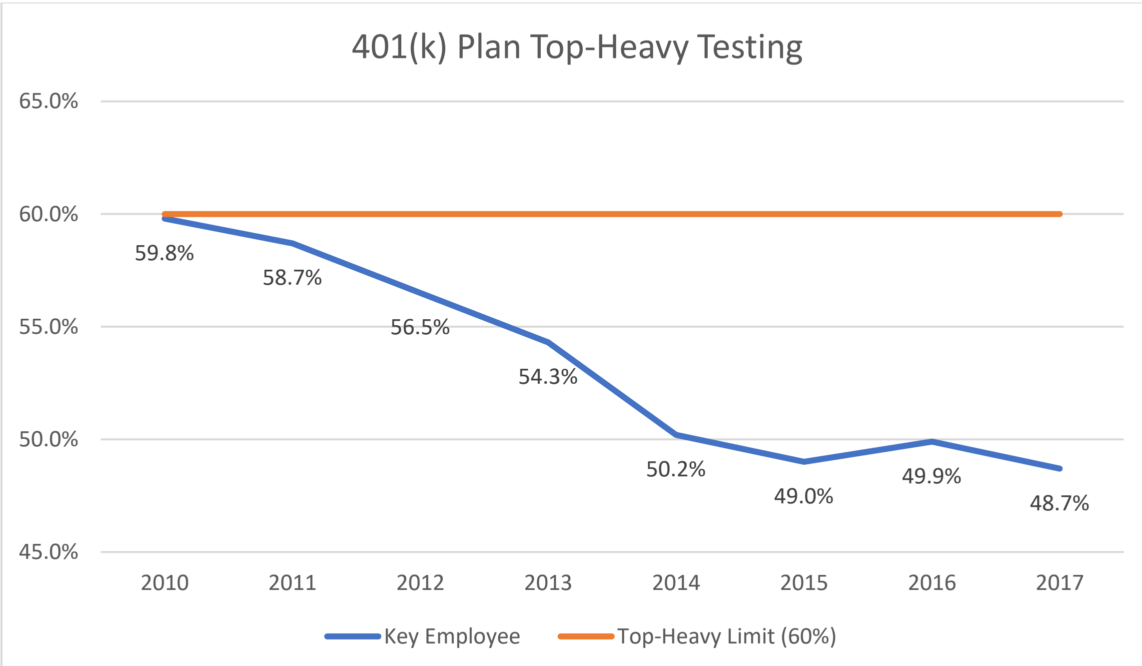
Annual Contribution to Plan – The employee deferral **increased 391%** from $118,835 in 2010 to $464,337 in 2018 with the employer match of $0 in 2010 to $223,412 in 2018. This resulted in an **increase of 356%** to the average annual contribution as a percentage of base salary from 3.9% to 13.9%.



401(k) Plan Asset Value – The plan asset value **increased 296%** from $2,454,000 in 2010 to $7,270,000 in 2018.



The 401(k) Plan top-heavy testing result was 59.8% in 2010 to 48.7% in 2017. In accordance with applicable regulations, a plan is top-heavy when the value owned by key employees is more than 60% of the total value of the plan assets. The compliance testing in 2017 still includes the full balance of founding partners within the key employee asset value.



Recommendations for changes to the tax rules governing 401(k) plans to facilitate greater employee retirement savings:

- Increase the annual deferral limits and catch up contribution to promote and incentivize more retirement savings.
- Eliminate Required Minimum Distribution (RMD) starting at age 70 ½.
- Increase the ADP and ACP limits so that those employees who are in a position to save for retirement are not as limited by the savings rates of those employees who are less able to save for retirement.
- Incentivize very small employers (1-25 employees) to create and maintain retirement programs by increasing contribution limits (including catch-up contributions) under the SIMPLE plan.
- Allow higher contribution limits under SIMPLE programs for other small employers 26-100 employees).